

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON MUTALE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mutale Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mutale Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Significant uncertainties

8. With reference to note 36 to the financial statements, the Municipality is the defendant in a contractual dispute lawsuit. The Municipality is opposing the claim, as it believes the claim to be unjustified. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Unauthorised expenditure

10. As disclosed in note 28.1 to the financial statements, unauthorised expenditure amounting to R 472 563 was incurred, as the actual operating expenditure exceeded the adjusted budget .

Fruitless expenditure

11. As disclosed in note 28.2 to the financial statements, fruitless expenditure to the amount of R 140 385 was incurred, as the interest and penalties were paid for late payment of suppliers.

Irregular expenditure

12. As disclosed in note 28.3 to the financial statements, irregular expenditure to the amount of R 6.3 million was incurred, as conditional grants used to finance operating expenditure.

Going concern

13. Note 37 to the financial statements indicate that Mutale Municipality's current liabilities exceeded its total assets by R24.5 million. Conditional grants amounting to R6.3 million were used to cover operational expenditure. Poor collection of debtors as evidenced by a provision for doubtful debts amounting to R3.2 million. These conditions, along with other matters as set forth in the note 37, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Additional matters

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

14. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

16. Mutale Municipality did not submit a draft annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA

Non-compliance with regulatory and reporting requirements**Existence and functioning of a performance audit committee**

17. Mutale municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

18. Mutale municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Compliance with laws and regulations

MFMA

The financial statements were not prepared in accordance with applicable legislation

19. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure

20. Contrary to section 1 of the MFMA, the municipality incurred unauthorised and irregular expenditure.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

21. Contrary to section 1 of the MFMA expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

22. Contrary to section 1 of the MFMA, expenditure incurred was made in vain, and could have been avoided.

Expenditure was not paid within the parameters set by the applicable legislation

23. Contrary to the requirements set out in section 65 (2) (e) of the MFMA, the accounting officer did not ensure that payments to suppliers are made within 30 days of receipt of the invoice.

24. Contrary to the requirements set out in section 64 (4) (a) of the MFMA, the accounting officer did not ensure that money collected on behalf of other organs of state is transferred to the concerned state organs at least on a weekly basis and that such funds are not used for operational purposes of the municipality.

The accounting officer did not adhere to his statutory responsibilities

25. Contrary to section 71 of the MFMA, the accounting officer did not submit signed returns on their conditional grant spending.
26. Contrary to the requirements set out in section 72 of the MFMA, the accounting officer did not ensure that the mid-year budget implementation plan is submitted to council for noting by 25 January 2010, instead the report was tabled before council on 31 March 2010.
27. Contrary to the requirements set out in section 62 (1) (d) of the MFMA, the accounting officer did not ensure unauthorised, irregular, fruitless and wasteful expenditure is prevented.

Division of Revenue Act of South Africa, No 12 of 2009 (DoRA)

28. Contrary to the requirements set out in section 15 (1) (c) of DoRA, the accounting officer did not prevent the utilisation of capital grants to defray operational expenditure.

Municipal Systems Act of South Africa, No 32 of 2000 (MSA)

29. Contrary to the requirements set out in section 7 (1) and 7 (2) of MSA, the accounting officer did not ensure that interests in businesses are declared by councillors and Senior Management
30. Contrary to the requirements set out in section 46 (1) (a) of MSA, the accounting officer did not ensure that the performance information report is prepared and submitted for audit purpose.
31. Contrary to section 84(1) of the MSA, the municipality purchased bulk portable water from the district municipalities to sell to the community which is a function of the district municipality, unless ministerial approval has been obtained.

INTERNAL CONTROL

32. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
33. The matters reported below are limited to the significant deficiencies regarding the basis for the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- Oversight responsibility*

- The accounting officer does not regularly monitor compliance by management with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted. In addition, senior management is not appraised on their effectiveness in implementing and maintaining internal controls in their divisions to ensure compliance.

- **Financial and performance management**

- Quality, reliable monthly financial statements and management information*

- The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

- Adequate systems*

- Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

- **Governance**

- Risk assessment*

- Internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Auditor - General

Polokwane

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence